

# FDIC State Profile

Spring 2006

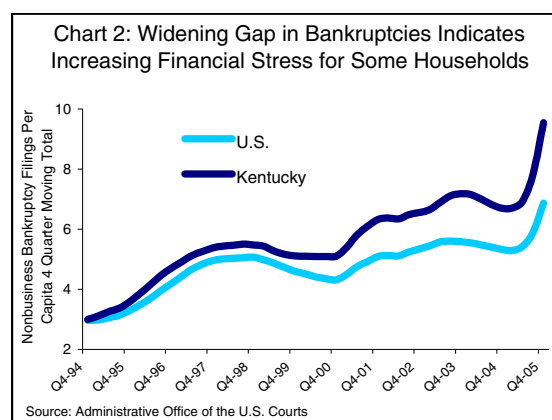
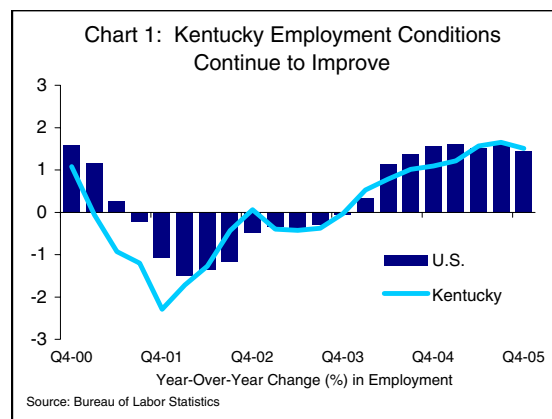
## Kentucky

Kentucky's employment conditions continued to improve in 2005.

- Kentucky posted its eighth consecutive quarter of year-over-year job growth, adding 27,500 jobs, or 1.5 percent, during the year ending fourth quarter 2005 (see Chart 1).
- Except for manufacturing, employment expanded in all of Kentucky's industry sectors in the year ending fourth quarter 2005. The state's construction sector grew by 2.6 percent, or 2,200 jobs, the most rapid pace since before the 2001 recession. The professional and business services, education and health services, leisure and hospitality, and government sectors added 71 percent of all the new jobs in the state.
- The state's manufacturing sector, which represents nearly 15 percent of total employment, has consistently lost jobs since the fourth quarter of 2000. **Huntington-Ashland**, **Lexington-Fayette**, and **Bowling Green** were the only metropolitan areas to report gains in this key sector.
- All of the state's major metropolitan areas reported gains in employment. Despite losing a small number of manufacturing jobs, the **Louisville** area reported the largest gain with 5,700 new jobs, or 0.9 percent. Job growth was primarily in the area's professional and business services, and trade, transportation and utilities sectors.
- Improved labor market conditions spurred faster growth in personal income across the state. Per capita personal income grew by 5.2 percent in the year ending third quarter 2005, up from 4.5 percent a year ago.

Despite job gains, an increasing number of Kentucky households show signs of financial stress.

- Since year end 1994, Kentuckians have initiated more personal bankruptcy filings per capita than the nation, and the gap between the state and nation has increased during the past five years (see Chart 2).
- Mortgage foreclosure rates also have been higher in Kentucky than the nation. Approximately 2.4 percent of residential mortgage loans in the state started the



**Table 1: Profitability Improved Despite Flattened Yield Curve**

Income statement contribution (percent of average assets)	Calendar year		Percentage Point Change
	2004	2005	
Net Interest Income	3.65	3.68	0.03
Noninterest Income	0.82	0.84	0.02
Noninterest Expense	-2.91	-2.91	0.00
Provision Expense	-0.22	-0.19	0.03
Security Gains & Losses	0.02	0.04	0.02
Pretax Net Income	1.36	1.46	0.10
Income Taxes	-0.29	-0.32	-0.03
Net Income (ROA)	1.07	1.14	0.07

Source: FDIC

Note: Merger-adjusted data for Kentucky's Community Institutions

foreclosure process during 2005, compared to 1.6 percent for the nation. Similar to bankruptcy trends, the difference between the mortgage foreclosure rate for the state and the nation has widened since 2001.

### Kentucky's home price appreciation continued to trail the national average and housing starts slowed.

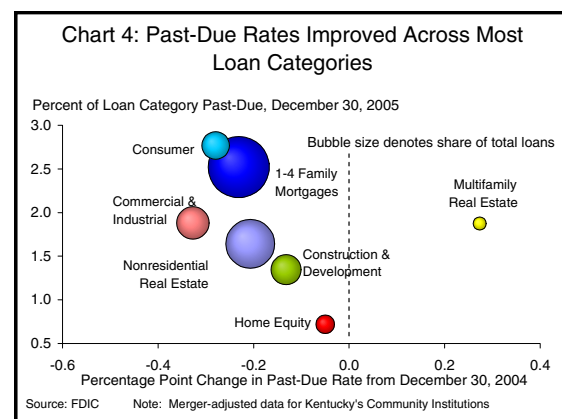
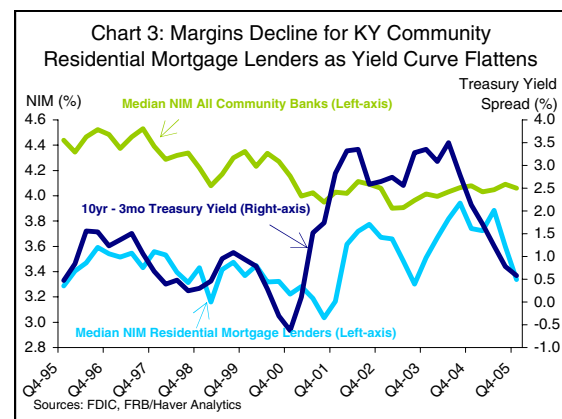
- Home prices are increasing more slowly across Kentucky than for the nation. The state's year-over-year home price growth of 5.3 percent in the fourth quarter 2005 ranked near the bottom (46<sup>th</sup>) nationwide and continues to limit homeowners' ability to tap the equity in their homes.
- The issuance of homebuilding permits across the state continued to trend downward; single-family home permits dropped 12.2 percent during the year ending fourth quarter 2005, the largest decline since first quarter 2001.

### Community institutions in Kentucky continued to report solid profitability, despite a flattening yield curve.<sup>1</sup>

- During 2005, Kentucky community institutions reported record high net income of \$372 million, a \$42 million (12.7 percent) increase over 2004. Return on assets (ROA) improved as net interest income, noninterest income and securities gains increased slightly and provision expenses decreased slightly (see Table 1).
- Net interest margins (NIMs) remained relatively steady, despite further flattening of the yield curve in 2005. Improved yields on earning assets, due in part to growth in typically higher-yielding commercial real estate loans, more than offset higher funding costs.
- In contrast to the state average, NIMs among Kentucky's residential mortgage lenders narrowed during 2005 and tracked changes in the yield curve (see Chart 3).<sup>2</sup> Funding cost increases were similar for residential lenders and the state's community banks overall; however, asset yields increased less for this subset of banks.
- Despite narrowing margins, aggregate ROA for residential lenders increased eight basis points due to higher levels of noninterest income and securities gains and lower loan loss provisions. Margins may be pressured further should a relatively flat yield curve continue, particularly for residential lenders as these institutions typically hold a higher percentage of longer-term assets.

### Asset quality indicators improved for insured institutions based in the state, but were less favorable than for banks across the country.

- Loan delinquency rates reported by Kentucky community institutions declined to 2.0 percent at year-end 2005, down a considerable 26 basis points from a year ago. Past-due loan rates improved across most major loan categories, particularly for commercial and industrial loans, which were below 2 percent for the first time during the past decade (see Chart 4). Similarly, the net loan charge-off rate declined to pre-2001-recession levels, and reserve coverage of noncurrent loans improved.
- Despite this improvement, credit quality indicators reported by the state's institutions continued to be weaker than the national average. The median loan delinquency rate ranked ninth highest in the nation at year-end 2005 and the median net charge-off ratio ranked fourth highest. The median loan loss reserve to noncurrent loan ratio ranked tenth lowest among all states.



<sup>1</sup>Community institutions are insured banks and thrifts with less than \$1 billion in assets, excluding new (less than three years old) and specialty banks. Data adjusted for merger activity.

<sup>2</sup>"Residential mortgage lenders" are defined as insured institutions that hold at least 50 percent of assets in 1-4 family mortgage loans and mortgage-backed securities.

## Kentucky at a Glance

**ECONOMIC INDICATORS** (Change from year ago, unless noted)

<b>Employment Growth Rates</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.5%	1.7%	1.1%	0.9%	-0.3%
Manufacturing (14%)	-0.5%	-0.7%	-0.4%	-0.7%	-3.5%
Other (non-manufacturing) Goods-Producing (6%)	4.1%	3.2%	0.4%	1.0%	-1.5%
Private Service-Producing (63%)	1.8%	1.9%	1.8%	1.7%	0.7%
Government (17%)	1.3%	2.1%	-0.1%	-0.8%	-0.7%
Unemployment Rate (% of labor force)	6.4	6.3	5.3	5.5	6.2
<b>Other Indicators</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Personal Income	N/A	5.9%	6.4%	5.5%	3.0%
Single-Family Home Permits	-12.2%	-7.2%	-3.2%	5.9%	4.8%
Multifamily Building Permits	-61.8%	-59.5%	79.0%	53.1%	-4.7%
Existing Home Sales	4.1%	9.5%	12.8%	10.1%	10.3%
Home Price Index	5.3%	6.4%	5.8%	5.1%	3.8%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	12.85	10.50	6.10	6.70	7.18

**BANKING TRENDS**

<b>General Information</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Institutions (#)	227	226	237	237	243
Total Assets (in millions)	52,604	53,825	51,465	51,465	47,465
New Institutions (# < 3 years)	4	5	5	5	7
Subchapter S Institutions	45	46	49	49	43
<b>Asset Quality</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.80	1.82	2.07	2.07	2.41
ALLL/Total Loans (median %)	1.27	1.28	1.29	1.29	1.29
ALLL/Noncurrent Loans (median multiple)	1.82	1.84	1.82	1.82	1.49
Net Loan Losses / Total Loans (median %)	0.17	0.10	0.21	0.17	0.20
<b>Capital / Earnings</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Tier 1 Leverage (median %)	9.82	9.73	9.51	9.51	9.17
Return on Assets (median %)	1.14	1.18	0.97	1.10	1.05
Pretax Return on Assets (median %)	1.38	1.54	1.33	1.40	1.38
Net Interest Margin (median %)	4.06	4.09	4.07	4.01	3.95
Yield on Earning Assets (median %)	6.48	6.34	5.84	5.77	6.02
Cost of Funding Earning Assets (median %)	2.35	2.18	1.80	1.73	2.06
Provisions to Avg. Assets (median %)	0.13	0.12	0.16	0.18	0.21
Noninterest Income to Avg. Assets (median %)	0.72	0.78	0.68	0.68	0.72
Overhead to Avg. Assets (median %)	3.01	3.03	3.04	2.96	2.87
<b>Liquidity / Sensitivity</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Loans to Assets (median %)	67.7	68.2	68.8	68.8	65.7
Noncore Funding to Assets (median %)	21.8	22.5	20.6	20.6	20.3
Long-term Assets to Assets (median %, call filers)	20.1	19.8	19.7	19.7	21.0
Brokered Deposits (number of institutions)	53	50	43	43	36
Brokered Deposits to Assets (median % for those above)	3.3	3.8	3.5	3.5	3.0
<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Commercial and Industrial	55.1	53.1	54.2	54.2	54.1
Commercial Real Estate	167.8	164.3	163.7	163.7	154.6
Construction & Development	24.7	25.0	22.9	22.9	21.3
Multifamily Residential Real Estate	4.8	4.9	5.5	5.5	5.2
Nonresidential Real Estate	115.8	116.7	119.5	119.5	116.0
Residential Real Estate	269.3	276.0	292.7	292.7	287.9
Consumer	51.1	51.9	57.0	57.0	66.7
Agriculture	36.8	38.3	33.9	33.9	42.4

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Louisville, KY-IN	53	19,289	< \$250 million	187 (82.4%)
Lexington-Fayette, KY	34	6,683	\$250 million to \$1 billion	34 (15%)
Huntington-Ashland, WV-KY-OH	25	3,566	\$1 billion to \$10 billion	6 (2.6%)
Clarksville, TN-KY	15	2,365	> \$10 billion	0 (0%)
Owensboro, KY	14	1,744		